

Message Text

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ACTION STR-02

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PASS STR FOR AMBASSADOR MCDONALD

E.O. 11652: N/A
TAGS: MTN, ETRD
SUBJECT: AGRICULTURAL STRATEGY IN THE TOKYO ROUND

1. TRANSMITTED HERewith IS THE PAPER "AGRICULTURAL
STRATEGY IN THE TOKYO ROUND" PREPARED BY KOENIG FOR
AMBASSADOR MCDONALD.

2. THE AGRICULTURAL STRATEGY TO BE FOLLOWED IN THE
TOKYO ROUND SHOULD PROCEED FROM CERTAIN BASIC FACTS
WHICH ARE THE MAJOR SOURCE OF FRICTION IN THE INTER-
NATIONAL TRADE WITH FARM PRODUCTS. FOREMOST AMONG THESE
FACTS ARE THE WIDE INTERNATIONAL DIFFERENCES IN THE
COSTS OF AGRICULTURAL OUTPUTS; THE LONG-TERM TENDENCY
OF AGRICULTURAL PRODUCTION TO OUTPACE DEMAND; AND THE
IRREGULAR PROFOUNDLY DISTURBING CROP SHORTFALLS IN SOME
MAJOR COUNTRIES (RUSSIA, INDIA). THE WIDE COST DIFFER-
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ENCES IN PRODUCING THE SAME PRODUCT LEAD IN HIGH COST
COUNTRIES TO STRONG DOMESTIC SUPPORT AND/OR HIGH LEVELS
OF PROTECTION. IF SUPPLY IS ELASTIC, HIGH SUPPORT
PRICES TEND TO GENERATE LARGE OUTPUTS, WHICH DISPLACE
IMPORTS, OR WHICH LEAD TO EXPORTABLE SURPLUSES THAT
CAN BE DISPOSED OF ABROAD ONLY WITH THE HELP OF HEAVY
EXPORT SUBSIDIES. THIS, IN TURN, FORCES EFFICIENT

COUNTRIES TO RETRENCH AND TO ADJUST THEIR PRODUCTION. THE TRADE DISTORTING EFFECTS OF HIGH PROTECTION AND LARGE SUBSIDIES CANNOT BE EASILY REMEDIED BECAUSE OF THE INTRINSIC WEAKNESS OF AGRICULTURE. DUE TO THE TENDENCY OF PRODUCTION TO EXCEED DEMAND, FARM PRICES ARE TENDING DOWNWARD. THIS LEADS TO AN ALMOST PERMANENT INCOME DISPARITY BETWEEN AGRICULTURE AND THE NON-AGRICULTURAL SECTOR OF THE ECONOMY AND HENCE TO A CONTINUAL EXODUS OF PEOPLE FROM AGRICULTURE. THE SOCIAL INSTABILITY OF THE AGRICULTURAL POPULATION IS POLITICALLY HIGHLY SENSITIVE. AT THE SAME TIME FARMERS AS PRIVATE PROPERTY HOLDERS ARE IN MANY COUNTRIES AN EMINENTLY CONSERVATIVE ELEMENT AND RECEIVE THEREFORE MORE PROTECTION THAN WOULD BE OTHERWISE WARRANTED. THE OCCASIONAL BUT SEVERE CROP SHORTFALLS IN MAJOR COUNTRIES ARE TODAY A MORE DISTURBING FACTOR THAN THEY USED TO BE. UNLIKE IN THE PAST THEY ARE FOLLOWED BY STRONG TRADE MOVEMENTS AND CAN HAVE AN INFLATIONARY IMPACT UPON THE ECONOMY AS A WHOLE. AGRICULTURE IS NOT A PROBLEM WHICH ADMITS OF A SOLUTION BUT A SITUATION WITH WHICH ONE HAS TO LIVE. THE AFORE-MENTIONED FACTS DOMINATE AGRICULTURE AND AGRICULTURAL TRADE IN ALL THE DEVELOPED COUNTRIES. THEY CANNOT BE MADE TO DISAPPEAR BUT THEY CAN BE CONTROLLED AND MANAGED. THEY DO NOT INVALIDATE THE TRADITIONAL PRINCIPLES GOVERNING INTERNATIONAL TRADE IN FARM PRODUCTS BUT THEY SUGGEST THAT ADDITIONAL APPROACHES SHOULD LIMITED OFFICIAL USE

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BE DEVELOPED TO DEAL WITH THESE PROBLEMS.

3. ACCESS: WHILE IT IS RECOGNIZED THAT THE POLITICAL, ECONOMIC AND SOCIAL CONDITIONS IN A GIVEN AGRICULTURAL SECTOR MAY MAKE ACCESS BY FOREIGN SUPPLIERS AND ENHANCED FOREIGN COMPETITION BARELY TOLERABLE, ACCESS TO FOREIGN MARKETS SHOULD BE CONSIDERED AS AN INALIENABLE RIGHT OF EACH AGRICULTURAL TRADING NATION. TO IMPLEMENT THIS RIGHT IT SHOULD BE AGREED A) THAT IN NORMAL CIRCUMSTANCES AN ABSOLUTE IMPORT (EXPORT) EMBARGO IS ILLICIT; B) THAT THERE MUST BE MINIMUM ACCESS COMMITMENTS. THESE SHOULD BE DEFINED QUANTITATIVELY (AND ON A CASE BY CASE BASIS) AS A CERTAIN AD VALOREM LEVEL OF AN IMPORT CHARGE OR A CERTAIN PERCENTAGE EQUIVALENT OF OUTPUT IN THE CASE OF IMPORT QUOTAS, OR BOTH. WHERE THE PROTECTIVE EFFECT OF IMPORT CHARGES OR QUANTITATIVE RESTRICTIONS IS CONSIDERED TO BE EXCESSIVE AND A COUNTRY IS NOT AMENABLE TO GRANT ACCESS IN THE TRADITIONAL WAY LONG RUN COMMITMENTS SHOULD BE ENTERED TO REDUCE SLOWLY BUT STEADILY THE IMPORT BARRIERS IN QUESTION UP TO A CERTAIN LEVEL. SUCH PROCEDURES MAY HAVE NO IMMEDIATE TRADE EFFECT BUT THEY WOULD GUARANTEE THAT THERE IS A LONG TERM MOVEMENT

TOWARD LIBERALIZATION, OR AT LEAST A LONG TERM MOVEMENT AWAY FROM PROTECTION. A SECOND PRINCIPLE TO BE AIMED AT IN SUPPORT OF BETTER ACCESS WOULD AFFECT DOMESTIC POLICIES. WHILE RECOGNIZING THE LEGITIMACY OF DOMESTIC SUPPORT MEASURES, AGREEMENT SHOULD BE SOUGHT THAT SUCH SUPPORT BE PRIMARILY ACHIEVED WITH THE HELP OF INCOME AND PRICE DEFICIENCY PAYMENTS RATHER THAN WITH THE HELP OF FIXED SUPPORT PRICES.

4. RULES OF COMPETITION: SINCE EXPORT SUBSIDIES (IN WHATEVER FORM) DISTORT FAIR COMPETITION, AN ATTEMPT SHOULD BE MADE TO REGULATE SUCH PRACTICES. THE SUBSIDY

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AND COUNTERVAIL CODE TO BE DEVELOPED IN THE MTN SHOULD INCORPORATE PROVISIONS WORKED OUT (WHERE POSSIBLE) ON A COMMODITY BASIS. THE IDEAS GUIDING SUBSIDY DISCIPLINES IN RELATION TO GIVEN COMMODITIES OR COMMODITY SECTORS SHOULD BE AS FOLLOWS: A) AS A MATTER OF PRINCIPLE EXPORT SUBSIDIES SHOULD BE AVOIDED AND WHERE UNAVOIDABLE THEY SHOULD BE REDUCED ON A LONG TERM BASIS (LIKE IN THE CASE OF EXCESSIVE MEASURES OF PROTECTION); B) EXPORT SUBSIDIES SHOULD NOT BE USED TO ESTABLISH PRICE LEADERSHIP IN A GIVEN MARKET BUT MERELY TO FOLLOW THE PRICING OF MORE EFFICIENT PROCEDURES; C) EXPORT SUBSIDIES (IN

WHATEVER FORM) MUST NEVER EXCEED A GIVEN PERCENTAGE OF THE DOMESTIC VALUE OF A GIVEN COMMODITY; D) IN GIVEN COMMODITY SECTORS (WHERE COMMODITY AGREEMENTS WITH ECONOMIC OR CONSULTATIVE PROVISIONS EXIST) SURVEILLANCE AND CONSULTATIVE BODIES DEVOTED EXCLUSIVELY TO EXPORT SUBSIDIZATION SHOULD BE ESTABLISHED.

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5. NON-DISCRIMINATION: WHILE THE PRINCIPLE OF PREFERENCES FOR LDC'S IS ACKNOWLEDGED TO APPLY ALSO IN AGRICULTURE, REMEDIAL ACTION SHOULD BE TAKEN WHERE SUCH PREFERENCES HAVE DELETERIOUS EFFECTS UPON EXPORTS BY DEVELOPED COUNTRIES IN THE MARKETS OF THOSE GRANTING PREFERENCES. (THIS APPLIES PRIMARILY TO THE EC AND IS IN LINE WITH THE CASEY-SOAMES AGREEMENT.) THE MFN PRINCIPLE SHOULD BE REASSERTED AND REMEDIAL ACTION REQUIRED ALSO IN CASES WHERE BILATERAL AGREEMENTS BETWEEN DEVELOPED COUNTRIES ARE CONDITIONAL AND THE CONDITIONS ARE SUCH THAT ONLY THE PARTNERS TO THE AGREEMENT ARE ABLE TO FULFILL THEM-TO THE DETRIMENT OF THIRD PARTIES.

6. S&D FOR LDC'S: WHERE IMPORT CHARGES CANNOT BE ESPECIALLY REDUCED UPON THE REQUEST OF LDC'S, SOME OF THEIR EXPORTS MAY BE NEVERTHELESS PRIVILEGED. THE DUTIES COLLECTED ON SOME OF THEIR EXPORTS SHOULD BE PARTLY REMITTED IN ORDER TO COMPENSATE THEM FOR THE NON-REDUCTION OF SUCH DUTIES.

7. STABILITY: GIVEN THE VAGARIES OF AGRICULTURE, PRICE STABILITY AND THE STABILITY OF SUPPLY CAN BE IMPROVED WITH THE HELP OF STOCKING OPERATIONS SO AS TO OFFSET VARIATIONS IN PRODUCTION. ONLY COMMODITIES NOT EASILY PERISHABLE AND HENCE SUSCEPTIBLE TO PROLONGED PERIODS OF STORAGE LEND THEMSELVES TO A RESERVE POLICY. THE BURDEN OF CARRYING STOCKS SHOULD BE SHARED BY ALL COUNTRIES ABLE TO DO SO. BURDEN SHARING IS IN THIS CONTEXT NOT ONLY A MATTER OF EQUITY BUT ALSO OF SELFINTEREST. IF STOCKS ARE CONCENTRATED IN ONE OR TWO COUNTRIES, THE PRICE EFFECT OF SUDDENLY RISING WORLD DEMAND WILL BE STRONGER THAN IF STOCKS ARE WIDELY DISTRIBUTED AND DEMAND

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IS GEOGRAPHICALLY DIFFUSED.

8. COMMODITY AGREEMENTS: COMMODITY AGREEMENTS CAN

BE EFFECTIVE ONLY IF THEIR ECONOMIC PROVISIONS ARE SUFFICIENTLY FLEXIBLE. THE SAME TYPES OF COMMODITIES ARE GENERALLY NOT HOMOGENEOUS ENOUGH TO BE SUBJECT TO IDENTICAL RULES. BY CONTRAST, INTERNATIONAL ARRANGEMENTS ESTABLISHING IN GIVEN SECTORS CONSULTATIVE BODIES FOR MONITORING AND SURVEILLANCE OF THE MARKET SITUATION COULD GREATLY CONTRIBUTE TO STABILITY PARTICULARLY IF THEY PROVIDE FOR THE POSSIBILITY OF COOPERATIVE ACTIONS.

9. REASONABLE CONSUMER PRICES: EVEN WITH STRONG SUPPORT PRICES, THE LONG TERM TREND FOR FOOD PRICES IS DOWNWARD. THIS IS PARTICULARLY TRUE OF THE PURE FARM COMPONENT OF FOOD PRODUCTS WHOSE RELATIVE VALUE IN THE FINISHED PRODUCT IS ALSO DECLINING. THE STABILITY OF CONSUMER PRICES CAN BE FURTHER STRENGTHENED BY THE EXISTENCE OF RESERVES. HOWEVER, LOW CONSUMER PRICES CANNOT BE AN EXPLICIT OBJECTIVE OF INTERNATIONAL TRADE NEGOTIATIONS.

10. ECONOMICALLY SOUND AGRICULTURAL BASE: THE PARADOX OF AGRICULTURE IS THAT, WHILE NOT A DYING INDUSTRY, ITS MANPOWER BASE IS CONTINUOUSLY SHRINKING. A REASONABLE DEGREE OF FULL EMPLOYMENT AND JOB OPPORTUNITIES OUTSIDE AGRICULTURE MAKE THESE CHANGES TOLERABLE AND CAN LEAD TO A RATIONAL REDEPLOYMENT OF THE FARM POPULATION. HOWEVER, IN THE ABSENCE OF SUCH NON-AGRICULTURAL EMPLOYMENT OPPORTUNITIES, IT IS NOT POSSIBLE, EVEN WITH WELFARE ASSISTANCE, TO PREVENT LARGE SCALE RURAL POVERTY. TO CREATE A SOUND AGRICULTURAL BASE BY AIMING AT AN OPTIMUM NUMBER OF FARMERS CANNOT BE AN OBJECTIVE OF OUR NEGOTIATING STRATEGY.

11. APPLICABILITY OF CODES TO AGRICULTURE: ALL THE LIMITED OFFICIAL USE

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CODES DEVELOPED IN THE MTN SHOULD ALSO APPLY TO AGRICULTURE, UNLESS OVERRIDING REASONS TELL IN FAVOR OF LIMITING THEIR APPLICABILITY. FOR THE PURPOSE OF THE MTN AGRICULTURE HAS BEEN DEFINED AS A SECTOR SUI GENERIS,

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YET THIS SECTOR EMBRACES NOT ONLY PRIMARY PRODUCTS BUT
ALSO INDUSTRIALLY PROCESSED PRODUCTS. IT WOULD THERE-
FORE BE DIFFICULT TO CIRCUMSCRIBE THE VALIDITY OF THE
CODES IF THEIR APPLICABILITY WERE LIMITED.

12. DRAFTED BY KOENIG. CULBERT

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Message Attributes

Automatic Decaptioning: Z
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Draft Date: 06 mar 1978
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Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
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Format: TEL
From: GENEVA USMTN
Handling Restrictions:
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Secure: OPEN
Status: NATIVE
Subject: AGRICULTURAL STRATEGY IN THE TOKYO ROUND
TAGS: ETRD, EAGR, US, MTN
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e137f8b7-c288-dd11-92da-001cc4696bcc
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